

# **LOS ANGELES COMMUNITY COLLEGE DISTRICT**



## **Los Angeles Pierce College Bookstore Audit**

**Report Date: March 31, 2018  
Report No. P-09-1718**

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## **BACKGROUND**

The Los Angeles Pierce College (LAPC) bookstore is a college enterprise that provides various goods and services to LAPC students. The Bookstore staff are responsible for maintaining the aesthetics of the store, customer service, ordering books, receiving and stocking the books that will be used by the Students and Instructors for classes. The primary goal is to ensure students are able to obtain the course materials students and faculty need at reasonable prices and in a timely manner. The LAPC Bookstore also provides many other items to support academic programs and extracurricular activities. An online sales platform is also available on the LAPC Bookstore website. Faculty, staff and students are able to purchase textbooks, gear, supplies, software and gifts through both purchasing avenues. Other items sold in the store for student and faculty convenience include confections, beverages, reference materials, and general academic supplies/electronics.

The Bookstore has implemented WinPRISM enterprise resource planning software for daily operations including, but not limited to, inventory, sales, purchases, shipping, receiving, etc. Financial information captured in WinPRISM is relayed to the College Bookstore each business day to complete the financial accounting and reporting process. Reports of Bookstore activity are sent to the District Accounting Department weekly for recording in SAP and the financial statements.

All information relating to the bookstore inventory is entered in the WinPRISM software utilized at the campus and the current inventory data is analyzed to determine the quantity of textbooks to order for the upcoming semester. The LAPC Bookstore utilizes Nebraska Book Company (NBC) for textbook inventory at wholesale. Inventory is continually generated from instructor textbook requests to be used during each semester/term. NBC allows the Bookstore to return unsold textbook inventory within a given period.

Additional inventory is stocked for supplies, college apparel and other miscellaneous. The Bookstore selects vendors for these general merchandise items based on current trends/ and or recommendations by representatives that visit the location, assessment store stock needs (based on sales numbers), and offer a competitive quote. Merchandise vendors for beverages, confections and caps and gowns usually allow the Bookstore to return items for spoilage or surplus inventory.

LAPC Bookstore management is responsible for performing annually inventory counts and to take the necessary steps to identify obsolete and/or the changes in the valuation of inventory for proper accounting and reporting. MSI Inventory Company assists the bookstore with a year-end inventory at the end of the fiscal year that are in turn used to generate the District Financials.

The LAPC Bookstore employs three fulltime employees. During the rush period, which occurs at the start of each semester, additional employees are hired to assist the bookstore with meeting the overall needs of the students. In fiscal year 2016/2017 the Combined Bookstore Operating Statement reported LAPC Bookstore sales in the amount of \$4,047,067.00 with a net profit of \$299,289.00.

## **PURPOSE/OBJECTIVES**

The objectives of this audit are to provide management with reasonable, but not absolute, assurance that the Bookstore:

- Operations are conducted in accordance with established policies and procedures as mandated by the Los Angeles Community College Board rules, Administrative regulations and internal operational procedures,
- Internal controls within the daily operational cashiering/sales activities are adequate to mitigate potential risks,
- Current policies and procedures are adequate in running effective and efficient operations for bookstore inventory,
- Purchases are properly accounted for as inventory,
- Cost of goods sold are properly recorded, and
- Financial Statement is accurate and presented in accordance with generally accepted accounting principles.

## **SCOPE**

The scope of the audit will include the review of processes and procedures of the LAPC Bookstore activities for the period **July 1, 2016 to June 30, 2017**. The Internal Audit Department (IAD) interviewed key employees charged with the responsibility of executing the objectives of the LAPC Bookstore and performed an examination of the records associated with its operations.

*This audit was conducted in accordance with Generally Accepted Government Auditing Standards, General Accepted Auditing Standards, and the International Standards for the Professional Practice of Internal Auditing.*

### Distribution:

Dr. Francisco C. Rodriguez, Chancellor  
Dr. Kathleen F. Burke, President  
Mr. Jeffrey M. Prieto, General Counsel  
Ms. Jeanette Gordon, CFO/Treasurer  
Mr. Rolf Schleicher, Vice President of Administrative Services  
Mr. Charalambos Ziogas, Director of Accounting  
Ms. Candy Van, Bookstore Manager

## ISSUES AND RECOMMENDATIONS

The key issues on the attached table are presented to assist management in strengthening internal controls, and enforcing compliance with policies and procedures as administrated by federal and state regulation, and LACCD. The impact of each of these issues was assessed based on the auditors' professional judgment of the control and risk significance.

### SECTION I - WALKTHROUGH

	Summary and Condition	Recommendation	Management Response	Expected Completion Date and the Responsible Party
1.	<p><b><u>Non-compliance with LACCD Policies and Procedures:</u></b> The Bookstore textbook buyback program is performed by a third party contractor without a valid contract or service agreement detailing terms and conditions.</p> <p><i>(Impact: High)</i></p> <p><b>Condition:</b>                      It was noted that the LAPC Bookstore textbook buyback services is performed by an external vendor (Nebraska also known as MBS). The vendor is allowed to utilize LAPC property without</p>	<p>IAD recommends the following:</p> <ol style="list-style-type: none"> <li>1. Bookstore management work with the District Contracting and Legal Departments to determine the contract terms and conditions with the textbook buyback vendor.</li> <li>2. A review of the contract should address the liability of allowing Nebraska to operate on campus premises to ensure that the District does not have any liability if issues arise during buyback process.</li> <li>3. A review of the bookstore buyback process is performed yearly and the contracts updated and/or amended to capture changes in the bookstore environment that warrants additional terms and conditions.</li> </ol>	<ol style="list-style-type: none"> <li>1. The College Store will work with Regional Procurement office to determine the appropriate structure/methodology for a 3<sup>rd</sup> party contractor to provide Book Buyback program using college facilities.</li> </ol>	<p>July 1, 2018</p> <p>Responsible Party:                      AVP,                      College Store                      Manager</p>

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	written terms and conditions of performing the service.	4. Periodic self-audits should be performed to ensure compliance with policies and procedures.  5. Training should be provided to management and other employees involved in the process.		
2.	<p><b><u>Non-compliance to LACCD policies and procedures:</u></b> Lack of segregation of duties as the Buyer is also performing cashiering duties and stock control duties.</p> <p><b><u>(Impact: Moderate)</u></b></p> <p>The following were noted during the walkthrough:</p> <p>1.Lack of Segregation of duties: The Buyer performs cashiering, stock control duties as well as her normal buyer duties. The buyer places orders for all Bookstore</p>	<p>IAD recommends the following:</p> <ol style="list-style-type: none"> <li>1. The LAPC Bookstore should perform an analysis of job duties and ensure that there is proper segregation of duties in cashiering duties, stock control, and buyer duties.</li> <li>2. The LAPC AVP should work with Personnel Commission to ensure that critical positions are filled in a timely manner to ensure proper segregation of duties.</li> <li>3. Training should be developed outlining segregation of duties that need to maintain by the bookstore.</li> <li>4. Receipt of acknowledgement should be provided and documented to ensure that all employees have read and</li> </ol>	<ol style="list-style-type: none"> <li>1. College Store Buyer will not receive merchandise. The department will continue working with the college Personnel office and Personnel Commission to fill they key stock control aide position with a qualified candidate in college bookstore warehouse.</li> </ol>	<p>July 1, 2018</p> <p>College Store Manager</p>

	Summary and Condition	Recommendation	Management Response	Expected Completion Date and the Responsible Party
	purchases and receives these items at delivery and then log items in WinPrism. The buyer also performs all cashiering duties.	understood the policy and procedures. 5. An employee accountability clause should be incorporated into the policies and procedures.		

## SECTION II – CASHIERING

	Summary and Condition	Recommendation	Management Response	Expected Completion Date and the Responsible Party
3.	<b><u>Non-compliance with LACCD Policies and Procedures.</u></b> The validity and proper execution of refunds could not be examined as refunds were not properly documented and could not be matched with the original sales.	IAD recommends the following: 1. Establish a procedure which records refund documentation to be kept with the Bookstore. This can be done by manual (refund slips) or system driven (refund approval codes; original receipt number recording) performance. 2. Evaluate administration rights of each	1. The College Store will document the original Purchase Receipt Number and student ID #on the Return receipt which the college maintain. 2. College store will request WinPrism to add features to their software to	April 1, 2018 College Store Manager  September 1, 2018 College Store Manager

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<p><b>(Impact: High)</b></p> <p>This equates to a 100% error rate with a dollar error of \$1,620 as sampled.</p> <p><b>Condition</b></p> <p>The documentation referencing the original sales transaction was not maintained for all return transactions (10 of 10) sampled.</p>	<p>current staff member; determine a select list of employees authorized to process refunds at specific price points.</p> <ol style="list-style-type: none"> <li>3. Implement system controls in WinPRISM for an automatic stop function for staff members without authorization to complete refunds.</li> <li>4. Consider assigning a designated register for refunds to separate the sales transaction terminal from the refund transaction terminal.</li> <li>5. Establish an organized record retention policy and procedure to ensure refund supporting documentation is on file with the Bookstore.</li> <li>6. Offer training in the most effective manner possible for involved staff.</li> <li>7. Accompany training with a receipt of acknowledgement to document that staff have completed training.</li> <li>8. Conduct unannounced audits of the refund process periodically.</li> <li>9. An employee accountability clause should be incorporated into the policies</li> </ol>	<p>automate the creation of duplicate return receipts.</p> <ol style="list-style-type: none"> <li>3. College sore will restrict approval of returns to senior Cashier and/or College Store Supervisor/Manager.</li> </ol>	<p>April 1, 2018 College Store Manager</p>



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		and procedures.		

### SECTION III – INVENTORY

	Summary and Condition	Recommendation	Management Response	Expected Completion Date and Responsible Party
4.	<p><b><u>Non-compliance with LACCD Policies and Procedures:</u></b> The College inventory as noted in WinPrism does not match the external inventory counts which suggests that inventory in the system is not accurately recorded which resulted in inventory being understated.</p> <p>This equates to a 90% error rate with the inventory error ranging from -207 to 455 textbook per title.</p>	<p>IAD recommends the following:</p> <ol style="list-style-type: none"> <li>1. Bookstore Management and AVP Administrative Services should contact personnel to fill positions in a timely manner.</li> <li>2. Develop internal procedures that require all Bookstore employees responsible for inventory handling to properly process and report assets.</li> <li>3. Document these procedures in a written, internal procedures manual made available to all Bookstore staff members.</li> <li>4. Ensure all inventory received in the</li> </ol>	<ol style="list-style-type: none"> <li>1. The department will continue working with the college Personnel office and Personnel Commission to fill they key stock control aide position with a qualified candidate in college bookstore warehouse.</li> <li>2. Perform Spot Checks quarterly to verify inventory/Win PRISM match. Create a log of inventory discrepancies.</li> </ol>	<p>July 1, 2018 College Store Manager</p> <p>May 1, 2018 College Store Manager</p>

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<p><i>(Impact: High)</i></p> <p><b>Condition:</b></p> <p>The beginning inventory, purchases and sales of 20 textbook SKUs were reviewed. The aforementioned 20 textbook SKUs and relevant information were compared to the inventory count performed by external vendor MSI on June 29, 2017. Sales transactions on June 29-30, 2017 were analyzed to determine the cause of variance. The following discrepancy was noted:</p> <p>- Eighteen (18) out of 20 textbook SKUs did not match the counts per MSI. This equates to a 90% error rate.</p>	<p>Bookstore is posted as current inventory in WinPRISM prior to being placed on sales floor.</p> <ol style="list-style-type: none"> <li>5. Document and file inventory counts performed by Bookstore staff prior to external vendors arriving for end of year inventory counts.</li> <li>6. Document and file reconciliation of external inventory counts to the internal records.</li> <li>7. Notate inventory discrepancies to keep record of reasons for inventory shrinkage.</li> <li>8. Provide training for all Bookstore employees responsible for inventory handling/processing; provide a receipt of acknowledgement.</li> <li>9. Conduct periodic self-audits by performing manual inventory counts.</li> <li>11. Incorporate an accountability clause in Bookstore manual to ensure employees are aware of and agree to duties and responsibilities.</li> </ol>	<ol style="list-style-type: none"> <li>3. Provide training for all staff involved in Inventory process.</li> </ol>	<p>July 1, 2018</p> <p>College Store Manager</p>

**SECTION IV –FINANCIAL STATEMENTS**

	<b>Summary and Condition</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Expected Completion Date and Responsible Party</b>
5.	<p><b><i>Please note that this finding was not counted for in the total audit rating as the control environment is located in the LACCD Accounting Department.</i></b></p> <p><b><u>Non-compliance with LACCD Policies and Procedures:</u></b> The Bookstore accounting process does not maintain adequate supporting documents to ascertain the reconciliation performed to reach the numbers noted on the Bookstore Activity reports. IAD performed a detail examination on the financial data and noted several variances. These variances were forwarded to the Accounting Department which they (AD) cleared however the documents to substantiate these adjustments were not readily available. Additionally, IAD noted that the AD rely on the documents forwarded by the Business office</p>	<p>IAD recommends the following:</p> <ol style="list-style-type: none"> <li>1. ESC Accounting Department implement a process that will serve as a test control for the data that is being documented by the College. This should include a review of the Win Prism data.</li> <li>2. ESC should retain documentation to support the validation of data to test controls.</li> <li>3. ESC should perform reconciliation with the Win Prism system to assist the college with identifying deficiencies that may be occurring that may potentially affect financial data. (For example: are the reporting picking up all sales, are employees accurately reflecting cost data, etc.)</li> <li>4. ESC should also work with the College to identify modules in Win Prism that are needed to assist with sound</li> </ol>	<p>Currently, the Accounting Department performs monthly cash and credit card reconciliations, in addition to an annual review and reconciliation of all the bookstore accounts in order to assure the accuracy of the financial statements. The department then provides a report on fund balance and store performance. The report highlights areas that may be of concern including levels of inventory, receivables, cash balances, purchases, etc.</p> <p>In light of the Internal Audit recommendation, the Accounting</p>	

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<p>without performing the test of control to rely on the data submitted.</p> <p><b>(Impact: Moderate)</b></p> <p><b>Condition:</b></p> <p>The Bookstore accounting processes does not have any independence verification of the origination of sales and purchases (use of the Win Prism source documents). It was noted that the District does not use this system to compare data with other source documents to assist with identifying variances that can solidify the validity of the financial data and thereby improving the overall accounting processes.</p>	<p>business practices for efficiency. (Example: inventory reporting)</p> <p>5. Reconciliations should be done monthly. Any variances should be addressed immediately and documented to support changes.</p> <p>6. Create internal policies and procedures to address financial reporting process that lead to best business practices. This can serve as a guide to strengthen the process and provide a road map for others that assume the duties of bookstore accounting.</p> <p>7. Provide training to employees involved in the process.</p> <p>8. Receipt of acknowledgement should be provided and documented to ensure that employees have read and understood policies and procedures.</p>	<p>Department will implement a second level of reconciliation using data provided directly from WinPrism. The second level review will be performed as a further control to assure the accuracy of the information provided by the Colleges to the Accounting Department. The Accounting Department will work with the Colleges to implement the corrective action plan below:</p> <p>1. The Accounting Department will require the College Business Offices (CFAs) to include Win Prism activity report print outs and any other document</p>	<p>Implementation Deadline: 04/30/2018</p> <p>Responsible Staff: Accountant/Snr Accountant</p>

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			<p>used in the report preparation as part of the collections report submission. District Accounting will then independently reconcile the documentation submitted by the CFAs against WinPrism report, to further assure the accuracy of the information.</p> <p>2. The Accounting Department will provide cross training to all staff members. We believe this will create the needed knowledge transfer within the department and provide continuity in cases of staff changes.</p> <p>3. The current vacant bookstore accountant position will be staffed. That position will work with the College</p>	<p>Begin May 1, 2018 (will be on-going) Responsible Staff: Accounting Manager</p> <p>Implementation Deadline: 05/31/2018 Responsible Staff: Director of</p>

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			<p>Bookstore Managers and CFAs to reconcile the WinPrism reports to Collections reports submitted by the College's as a second layer of reconciliation. The position will also perform the Accounting functions (under Supervision of the Senior Accountant) in implementing the WinPrism-SAP interface project.</p> <p>4. At the end of each fiscal year, the Accounting Department will provide a summary reconciliation of all accrual transactions posted as part of the year end closing process.</p> <p>The College Bookstore Managers in coordination with ESC</p>	<p>Accounting</p> <p>Implementation Deadline: 07/31/2018</p> <p>Responsible Staff: Snr. Accountant</p> <p>Implementation Deadline: 06/30/2019</p> <p>Responsible Staff:</p>

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			<p>resources (IT, Accounting etc) will fully implement WinPrism in order for it to communicate live with SAP (the District's ERP software). The goal is to eliminate any manual posting entries that could possible create the possibility of posting errors. The Accounting side of this project will primarily be executed by the Bookstore Accountant under the Supervision of the Senior Accountant.</p>	<p>Bookstore Managers</p>